

## FLOOD CONTROL PROGRAM IN CAMPINAS

(BR-0234)

### EXECUTIVE SUMMARY

<b>BORROWER:</b>	The Municipality of Campinas
<b>GUARANTOR:</b>	The Federal Government of Brazil
<b>EXECUTING AGENCY:</b>	The municipal government of Campinas (MGC) through the Department of Planning and Environmental Affairs
<b>AMOUNT AND SOURCE:</b>	IDB: US\$19.8 million (OC) Local counterpart funding: US\$13.2 million Total: US\$33.0 million
<b>FINANCIAL TERMS AND CONDITIONS:</b>	Amortization period: 25 years Disbursement period: 3 years Interest rate: variable Inspection and supervision: 1% Credit fee: 0.75%
<b>OBJECTIVES:</b>	The main objective of the program is to reduce the damage caused by flooding in the city of Campinas, thus helping to improve the city's socioeconomic and environmental situation, particularly the living conditions of families residing along the banks of watercourses, while providing savings in travel time and costs for people who use the roads affected by flooding. The program will also help to regain the municipality's institutional and financial capacity over the medium term.
<b>DESCRIPTION:</b>	The program consists of three projects. The first two correspond to each of the selected watersheds where civil and social works will be carried out, consisting of: (i) drainage, including the channeling of watercourses, storm sewers, basic sanitation and road works; (ii) improvements in shantytowns ( <i>favelas</i> ); and (iii) resettlement of families. The third project contains five components that include a series of special activities connected to the program in the areas of: (i) environmental education; (ii) rehabilitation of areas left vacant after the shantytown improvement and, primarily, the family resettlement activities; (iii) institutional and financial strengthening for the MGC; (iv) technical

	<p>support for the improvement and resettlement plan (PUR); and (v) financial audit of the program. Each of the projects in the program is summarized below and discussed in detail in chapter II of this loan proposal.</p> <p>a. <u>Project 1. Piçarrão watercourse (US\$4,490,000)</u>: 2.6 kilometers of channeling along the watercourse, and 900 meters of storm sewers, 320 meters of paving,</p> <p>b. <u>Project 2. Quilombo watercourse (US\$13,460,800)</u>: the construction of about 2.2 kilometers of channels of storm sewers. It also includes basic improvements in towns and the resettlement of about 1,080 families in favela development in northwestern Campinas.</p> <p>c. <u>Project 3. Special activities (US\$4,235,000)</u>: environmental education, the reclamation of abandoned land, social recovery, and institutional and financial strengthening of the MGC in the areas of finances, human resources, control of land use and the urban environment, technical assistance, PUR, and financial auditing of the borrower.</p>
<b>ENVIRONMENTAL CLASSIFICATION:</b>	The Environment Committee, at its meeting of March 7, 1995, classified this as a Category IV operation. The program's environmental summary was approved on October 11, 1995.
<b>POVERTY REDUCTION CRITERIA:</b>	As stipulated in the Eighth Replenishment document (AB-1704), it has been determined that the proposed program is targeted to low-income sectors (paragraph 5.53) and, being an environmental sanitation operation, it qualifies as a social program as established in paragraph 2.13 of document AB-1704.
<b>PROCUREMENT OF CIVIL WORKS, GOODS, AND CONSULTING SERVICES:</b>	Bank procedures will be followed in procuring the goods and contracting the services to be financed from the loan proceeds. The thresholds above which procurement under this program will be made through international competitive bidding are US\$350,000 for goods, US\$3 million for works, and US\$200,000 for consulting services (paragraph 3.32).
<b>SIMPLIFIED PROCEDURE:</b>	Pursuant to Part III, Section 2(b), of the Regulations of the Board of Executive Directors and the guidelines approved by the Board of Executive Directors (document GN-1838-1), this operation meets the conditions for processing by the simplified procedure, without prior consideration by the Committee of the Whole.

<b>BENEFITS:</b>	<p>The drainage and road works will eliminate the damage and injuries caused by flooding, whose victims are mostly people living in risk areas. They will also help to significantly reduce the spread of water-borne diseases. In economic terms, the completed works will increase the value of urban property presently affected by flooding, which will have a positive impact on the municipality's finances. By rehabilitating roads that are currently subject to flooding, major savings will be obtained in terms of travel costs and time. Lastly, by controlling flooding, the MGC will no longer have to bear the extra emergency costs.</p> <p>Urban improvements in the shantytown areas adjacent to the watercourses to be drained will help to raise the standard of living of the inhabitants. By connecting them to the municipality's urban infrastructure and public services system, as provided for under the program, these families will have better opportunities for socioeconomic development. The improvements will benefit about 633 families.</p> <p>The resettlement of families that currently live in risk areas is one of the program's greatest social benefits. Aside from eliminating the property damage, injuries, and diseases they suffer as a consequence of flooding, they will be provided with better housing solutions than at present. This action in itself, combined with the provision of basic infrastructure and social services in the new resettlement areas, will improve the quality of life of about 1,100 families.</p> <p>Reclamation of the areas that are abandoned when the families are resettled will prevent new illegal incursions and preserve native plant cover. The areas will be used for recreational purposes when the terrain permits. One positive feature of this reclamation the way it will be executed, inasmuch as the environmental education program, aside from sensitizing the groups affected and raising the awareness of civil society in Campinas as a whole, will organize and pay young people and adults from the shantytowns to plant trees in the abandoned areas. It will also encourage participation by community leaders and different NGOs in the city.</p> <p>The different measures to be implemented for the financial and institutional strengthening of the municipal government will help it to provide the local counterpart for the program and, in the medium</p>
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	<p>term, to improve the efficiency of the services that the city delivers to the public and make financial resources available for municipal investments of other kinds. It will also improve the municipality's efficiency in tax billing and collection, and in planning and managing human, material, and financial resources, and boost its capacity to manage land use and the urban environment.</p>
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<b>RISKS:</b>	<p>The main risks entail: (i) a change in city government after the 1996 municipal elections, which will take office in 1997 and may have different priorities; (ii) little or no economic growth in the region and the municipality of Campinas, which would have a negative impact on city income; and (iii) failure to begin the supplementary works involving the provision of potable water, sanitary sewers, and electricity in the areas where the 1,100 families are to be resettled.</p> <p>The proposed operation includes the following measures to eliminate or attenuate these risks: (i) the presence of a program management firm, which is currently supporting the program's executive group, will make it virtually certain that execution will not be adversely affected by a change in municipal government; (ii) the fact that the chairman of SANASA ? the water supply and sanitation company ? will be a voting member of the special program supervisory committee will help to ensure that the contractual requirements are met and that the supplementary works are carried out; (iii) the institutional strengthening component has been designed to ensure that the municipal government will have the tools it needs to identify new opportunities for economic development, and improve its efficiency in tax administration and current and capital spending; and (iv) the contractual conditions to be complied with by the MGC and the program's performance indicators to be achieved by MGC.</p>
<b>EXCEPTIONS TO BANK POLICY:</b>	<p>The federal government will be guarantor for the loan. The guarantee would extend to cover repayment of the loan, including interest and fees, and obligations to perform that are the legal jurisdiction of the federal government. The borrower will be responsible for the local contribution. The financial analysis, together with fulfillment of the financial contractual conditions proposed in the draft contract, make it possible to establish that the borrower has sufficient financial capacity to provide the counterpart resources needed to properly execute the program.</p>
<b>THE BANK'S COUNTRY AND SECTOR STRATEGY:</b>	<p>The program conforms to and is completely compatible with the Bank's operating strategy for Brazil for the 1995 to 1997 period. Although that strategy stresses actions to support State modernization and reform, the process of economic liberalization, and the reduction of socioeconomic imbalances and poverty, it also provides for support for government actions</p>

	<p>involving urban cleanup, environmental education and protection, rational management of natural resources, environmental sanitation, and strengthening of the public entities responsible for environmental control.</p> <p>The Brazilian federal government places priority on solving environmental problems and has asked the IDB for support in this area. Thus far, the Bank has approved a total of US\$2.293 billion in lending for sanitation and other environmental activities. In the coming years, operations similar to the one described here will be proposed for other municipalities such as Belo Horizonte, Recife, Salvador, Joinville, and the Federal District, as well as a regional sanitation program in the northeastern part of the country.</p> <p>Discussions are currently under way with the national authorities on the operational strategy to be adopted to meet the growing demand for financing for municipal environmental sanitation projects more responsively and efficiently. A global multiple-works program is being envisioned, which would be administered by one or two national institutions. In addition, preliminary talks have taken place on the establishment of a fund to finance social infrastructure, which would conceptually be related to a fiscal adjustment program for the states (through eligibility criteria for access to the fund based on satisfactory results of fiscal measures and the states' borrowing capacity). Such a fund would focus on financing infrastructure works, primarily with state water and sanitation companies. It should be noted that the Bank is internally considering other ways to process municipal projects quickly, which would be proposed in future operations with the country.</p>
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<p><b>SPECIAL CONTRACTUAL CONDITIONS:</b></p>	<p>The following must be presented prior to the first disbursement of the loan:</p> <ul style="list-style-type: none"> <li>a. The municipal decree authorizing program setting out the responsibilities of the executing entities participating in execution (paragraph 3.3).</li> <li>b. Evidence that a technical team has been hired to assist in executing the definitive urban development and plan for the program (paragraph 3.16).</li> <li>c. Evidence that a special account has been set up, with terms agreed upon with the Bank, at a financial level acceptable thereto, for the purpose of demonstrating that local counterpart resources are available for program execution (paragraph 5.16).</li> <li>d. Evidence that the MGC has paid all the advances on revenues operations contracted prior to the effective date of the contract in accordance with the terms agreed upon (paragraph 5.17).</li> <li>e. A municipal decree for cost recovery for the works built in the municipality's jurisdiction and a plan for implementation (paragraph 5.50).</li> </ul> <p>Other special conditions to be included in the contract are:</p> <ul style="list-style-type: none"> <li>a. Within six months of the effective date of the contract prior to the start of the works envisaged in the contract, the borrower is to be presented that the supervisory firm has been selected (paragraph 3.8).</li> <li>b. Within six months of the effective date of the contract, the borrower is to be presented with a plan to finance, operate, and maintain the city's drainage system (paragraph 3.25).</li> <li>c. The first semiannual follow-up work plan is to be presented within six months of the effective date of the contract and subsequent annual follow-up plans are to be presented during the execution of the contract on which, based on performance indicators and targets agreed with the Bank, are to include: (i) physical and financial progress in the execution of projects, subprojects, and activities; (ii) the program's environmental indicators; (iii) the progress of the proposed targets have been met; and (iv) adjustments to the original targets. If program execution is found to be unsatisfactory, the borrower will present the corrective measures taken and a timetable for their implementation to the Bank within 60 days of receiving its recommendations (paragraph 5.18).</li> </ul> <p>Progress on the works on the trunk and collection sewers being built alongside the watercourses to be</p>
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	<p>the program is to be reported in the semiannual work period of two years after the contract becomes effective).</p> <p>d. Prior to issuing calls for bids for consulting the institutional and financial strengthening component, terms of reference are to be presented for the Bank's within eight months after the effective date of the loan agreement is to be presented that the consultants for this project have been hired. Within 24 months after the effective date of the loan agreement, the borrower is to present the results of the work and the plan to implement their recommendations).</p> <p>e. Prior to the resettlement of families, and at the 30 months after the effective date of the loan agreement is to be presented that the new housing conforms to specifications contained in local legislation).</p> <p>f. Prior to beginning any work that might affect the families resettled in the Quilombo watershed, evidence is to be presented that the supplementary works to provide basic services in Santa Genebra resettlement area have begun; and prior to any work that could affect the dwellings of the families resettled in the aforementioned watershed, evidence is to be presented that:</p> <p>(i) these families have already been resettled and supplementary works in Santa Genebra have been executed).</p> <p>g. Twelve and 24 months after the effective date of the loan agreement, the borrower and the Bank will hold meetings to review the progress of the program works and the results obtained under the component involving institutional and financial strengthening of paragraph 3.22).</p> <p>h. Twelve months after the effective date of the loan agreement is to be presented that: (i) an internal auditing unit has been established in the municipal government, reporting to the mayor; and (ii) the unit has been adequately staffed. Twenty-four months after the unit has been established, the results of the unit's operations is to be presented based on the evaluation report of the firm of independent accountants to be presented with the program's financial statements (paragraph 4.11).</p> <p>i. Eighteen months after the effective date of the loan agreement is to be presented that the cost-recovery plan for the program works has been implemented, which should cover at least the period for collection of the betterment levies introduced in the program (paragraph 5.50).</p> <p>j. The Bank will recognize up to US\$2.7 million for the local contribution spent on program preparation</p>
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	<p>1, 1995 (paragraph 3.35).</p> <p>k. The financial statements relating to the program ted annually during its execution and the borrower's ments during the life of the loan contract, audited by ão Paulo's Auditor General. The program's financial l be audited by the Federal Audit Department .</p>
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<b>OTHER CONSIDERATIONS:</b>	<p>The contribution of the project team to program preparation has led directly to the adoption of measures that have substantially improved the operation initially proposed. As originally conceived, the program placed special stress on flood control, while some social works and actions were included with parallel financing outside the program. As a result of the Bank's involvement, a social component (shantytown improvements and resettlement of low-income families living in risk areas and environmental education, health care, and transportation programs for the target population) has been included, in the amount of US\$11 million or 60% of total direct costs. Considering the institutional and financial weakness of the municipal government, a major component has been included to boost the MGC's financial capacity over the medium term and to optimize its organizational structure so that it can operate more efficiently. This will permit the municipality to improve the quality of the services it provides to its citizens and increase its capacity to make other investments to contribute to their well-being. The Bank's actions have also resulted in: (i) adjustments in the environmental impact studies that helped to identify critical flood points, develop the projects, and design environmental impact mitigation measures; (ii) socioeconomic studies that made it possible to determine minimum-cost alternatives and to reject subprojects that were not viable; (iii) hydrological and hydraulic studies to improve the quality of the projects and obtain savings on the order of US\$5.8 million; (iv) provision for contracting a management firm to prepare the program and provide administrative and technical support for the executing agency during the project; (v) contracting of a firm to supervise the works which will include personnel specializing in slum improvement and resettlement; (vi) grouping of the civil works and the urban development and resettlement projects into two integrated bid packages that will facilitate international competitive bidding; and (vii) definition of an environmental education program.</p> <p>The contribution by the project team to the Bank consisted of: (i) deeper understanding of the urban, social, environmental, legal, institutional, and financial situation of Brazilian municipalities; and (ii) fine-tuning of the Bank's analysis methods for municipal sanitation projects in Brazil, which will make a substantial contribution to the design of operating regulations for a future global multiple-</p>
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	works program to serve the growing demand for financing by municipal governments to address their residents' needs for basic infrastructure and social services.
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